

2008

ANNUAL  
REPORT

# Coachman Insurance Company





# Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

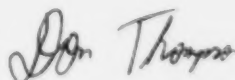
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Paul Christoff  
Chief Operating Officer



Don Thompson  
Chief Financial Officer

February 19, 2009

# Actuary's Report

To the Shareholder of Coachman Insurance Company

I have valued the policy liabilities of Coachman Insurance Company for its statement of financial position at December 31, 2008 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



Richard Gauthier  
PricewaterhouseCoopers  
Fellow, Canadian Institute of Actuaries

February 19, 2009

# Auditors' Report

To the Shareholder of Coachman Insurance Company

We have audited the statement of financial position of Coachman Insurance Company as at December 31, 2008 and the statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants  
Regina, Canada

February 19, 2009

# Statement of Financial Position

December 31

2008      2007  
(thousands of \$)

## Assets

Cash and cash equivalents (note 3)	\$ 1,880	\$ 1,393
Accounts receivable (note 4)	12,682	12,500
Deferred policy acquisition costs	2,645	2,615
Reinsurers' share of unearned premiums (note 9)	467	493
Future income taxes (note 11)	635	1,948
Investments (note 5)	76,816	72,679
Unpaid claims recoverable from reinsurers (notes 7 and 9)	21,154	25,717
Property, plant and equipment (note 6)	<u>5</u>	<u>10</u>
	<u>\$ 116,284</u>	<u>\$ 117,355</u>

## Liabilities

Accounts payable and accrued liabilities	\$ 2,655	\$ 3,294
Amounts due to reinsurers (note 9)	246	328
Unearned reinsurance commissions	152	165
Unearned premiums (note 17)	12,713	12,195
Provision for unpaid claims (note 7)	<u>61,864</u>	<u>66,557</u>
	<u>77,630</u>	<u>82,539</u>


## Shareholder's equity

Share capital (note 8)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	7,910	3,228
Accumulated other comprehensive loss	<u>(856)</u>	<u>(12)</u>
	<u>38,654</u>	<u>34,816</u>
	<u>\$ 116,284</u>	<u>\$ 117,355</u>

Commitments and contingencies (note 18)

(see accompanying notes)

On behalf of the Board:



Earl G. Cameron – Director



Randy Heise – Director

# Statement of Operations

year ended December 31

	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
Gross premiums written	\$ 26,444	\$ 26,395
Net premiums written	<u>\$ 23,693</u>	<u>\$ 23,182</u>
Net premiums earned (note 9)	<u>\$ 23,169</u>	<u>\$ 22,836</u>
Claims incurred (note 9)	12,670	11,287
Commissions (note 9)	4,274	4,205
Administrative expenses	3,050	2,633
Premium taxes (note 9)	814	817
Facility Association participation (note 17)	<u>208</u>	<u>79</u>
Total claims and expenses	<u>21,016</u>	<u>19,021</u>
Underwriting profit	2,153	3,815
Investment earnings (note 10)	<u>4,370</u>	<u>4,391</u>
Income before income taxes	6,523	8,206
Income tax expense (note 11)	<u>1,841</u>	<u>1,189</u>
Net income	<u>\$ 4,682</u>	<u>\$ 7,017</u>

(see accompanying notes)

# Statement of Comprehensive Income

year ended December 31

	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
<b>Net income</b>	<b><u>\$ 4,682</u></b>	<b><u>\$ 7,017</u></b>
<b>Other comprehensive loss, net of income taxes:</b>		
Unrealized losses on available for sale		
financial assets arising during the year	(772)	(834)
Income tax recovery on unrealized losses	<u>259</u>	<u>301</u>
	<u>(513)</u>	<u>(533)</u>
Reclassification of net realized losses (gains)		
on sale of investments included in net income	(497)	92
Income tax expense (recovery) on losses	<u>166</u>	<u>(33)</u>
	<u>(331)</u>	<u>59</u>
<b>Other comprehensive loss</b>	<b><u>(844)</u></b>	<b><u>(474)</u></b>
<b>Comprehensive income</b>	<b><u>\$ 3,838</u></b>	<b><u>\$ 6,543</u></b>

(see accompanying notes)



# Statement of Changes in Shareholder's Equity

year ended December 31

	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
<b>Share capital</b>		
Balance, end of year	<u>\$ 1,000</u>	<u>\$ 1,000</u>
<b>Contributed surplus</b>		
Balance, end of year	<u>\$ 30,600</u>	<u>\$ 30,600</u>
<b>Retained earnings (deficit)</b>		
Balance, beginning of year	\$ 3,228	\$ (3,935)
Change in accounting policy	-	146
Net income	<u>4,682</u>	<u>7,017</u>
Balance, end of year	<u>\$ 7,910</u>	<u>\$ 3,228</u>
<b>Accumulated other comprehensive loss</b>		
Balance, beginning of year	\$ (12)	\$ -
Change in accounting policy	-	462
Other comprehensive loss	<u>(844)</u>	<u>(474)</u>
Balance, end of year	<u>\$ (856)</u>	<u>\$ (12)</u>
Total shareholder's equity	<u>\$ 38,654</u>	<u>\$ 34,816</u>

(see accompanying notes)

# Statement of Cash Flows

year ended December 31

	<u>2008</u>	<u>2007</u>
	(thousands of \$)	
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Net income	\$ 4,682	\$ 7,017
Non-cash items:		
Net realized loss (gain) on sale of investments	(497)	92
Amortization	203	37
Future income taxes	1,313	1,189
Change in non-cash operating items (note 14)	<u>(107)</u>	<u>(8,511)</u>
	<u>5,594</u>	<u>(176)</u>
<b>Investing activities</b>		
Purchase of investments	(97,346)	(129,857)
Proceeds on sale of investments	92,239	131,002
Purchase of property, plant and equipment	<u>-</u>	<u>(2)</u>
	<u>(5,107)</u>	<u>1,143</u>
<b>Increase in cash and cash equivalents</b>	<b>487</b>	<b>967</b>
Cash and cash equivalents, beginning of year	<u>1,393</u>	<u>426</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 1,880</u></b>	<b><u>\$ 1,393</u></b>

(see accompanying notes)

# Notes to the Financial Statements

December 31, 2008

## 1. STATUS OF THE CORPORATION

Coachman Insurance Company (the Corporation) was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Insurance Act* (Ontario) and is licensed to conduct business in Ontario.

The Corporation's automobile insurance premium rates are regulated by provincial government authority. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 63% (2007 – 63%) of the Corporation's net premiums earned.

As a wholly-owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles (GAAP). The following are considered to be the Corporation's significant accounting policies:

### Change in accounting policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

### Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 7), investment valuation (note 5) and income taxes (note 11).

### **Financial assets and liabilities**

CIICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial asset or liability has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets or liabilities classified as held for trading are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income, however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. Financial assets or liabilities designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets or liabilities designated as held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as available for sale. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. The unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from Section 3855.

### **Investments**

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures is determined based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

### **Investment earnings**

The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled fund revenue when distributions are declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

**Premiums**

Premiums written are recognized as revenue evenly over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of premiums written relating to the unexpired terms of policies in force.

**Provision for unpaid claims**

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

**Reinsurance ceded**

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

**Income taxes**

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

**Cash and cash equivalents**

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

#### Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expenses over the term of the insurance policies to which they relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

#### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Computer hardware, system costs and other equipment	3-5 years
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#### Future accounting policy changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation's parent, SGI CANADA, has commenced an IFRS conversion project, for it and its subsidiaries, including initiating the development of a high-level IFRS implementation plan. An external advisor has been engaged by SGI CANADA to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable. However, such impact may be material. As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

### 3. CASH AND CASH EQUIVALENTS

	(thousands of \$)	
	2008	2007
Money market investments	\$ 1,952	\$ 1,490
Cash on hand, net of outstanding cheques	(72)	(97)
Total cash and cash equivalents	<u>\$ 1,880</u>	<u>\$ 1,393</u>

The average effective interest rate on money market investments is 1.2% (2007 - 4.0%).

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of \$)	
	2008	2007
Due from insureds	\$ 9,584	\$ 9,185
Facility Association (note 17)	1,556	1,548
Due from reinsurers	694	556
Accrued investment income	514	638
Due from brokers	205	372
Other	129	201
Total accounts receivable	<u>\$ 12,682</u>	<u>\$ 12,500</u>

Included in due from insureds is \$7,440,000 (2007 - \$6,926,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

#### 5. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	(thousands of \$)	
	2008	2007
Short-term investments	\$ 4,695	\$ 8,934
Bonds and debentures	60,179	56,283
Pooled equity funds:		
Canadian	5,270	4,506
United States	3,862	1,448
Non-North American	2,810	1,508
Total investments	<u>\$ 76,816</u>	<u>\$ 72,679</u>



Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

#### Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 2.5% (2007 – 4.4%) and an average remaining term to maturity of 85 days (2007 – 141 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

#### Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than Government of Canada bonds or a Canadian province, to 10% of the market value of the combined bond and short-term portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers and all securities must be denominated in Canadian dollars.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Term to maturity (years)	(thousands of \$)			
	2008		2007	
	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ 1,707	4.5%	\$ –	–
After one through five	20,937	3.7%	29,783	4.4%
Canadian provincial and municipal:				
One or less	1,296	5.3%	–	–
After one through five	8,901	5.7%	8,654	5.5%
Canadian corporate:				
One or less	1,553	4.9%	1,633	4.5%
After one through five	20,365	5.0%	10,665	5.0%
After five	5,420	4.5%	5,548	4.5%
Total bonds and debentures	<u>\$ 60,179</u>		<u>\$ 56,283</u>	



Investments with a carrying value of \$56,000 (2007 - \$53,000) are held in trust as required by regulatory authorities.

#### Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

#### Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of \$)			
	2008		2007	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	\$ 2,358	\$ (14)	\$ 20,662	\$ (67)
Provincial and municipal	—	—	6,806	(59)
Corporate	13,286	(307)	14,908	(243)
Pooled equity funds:				
Canadian	5,270	(1,905)	—	—
United States	3,862	(232)	—	—
Non-North American	2,810	(486)	1,508	(26)
	<u>\$ 27,586</u>	<u>\$ (2,944)</u>	<u>\$ 43,884</u>	<u>\$ (395)</u>

As at December 31, 2008, the cost of 21 (2007 - 32) available for sale investments exceeded their fair value by \$2,944,000 (2007 - \$395,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For pooled equity funds, unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. No investment write-downs were recorded during the current or prior year related to impairments that were considered other than temporary.

## 6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as related amortization, are as follows:

	(thousands of \$)			2007
	2008			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware, system costs and other equipment	\$ 760	\$ 755	\$ 5	\$ 10
Total	<u>\$ 760</u>	<u>\$ 755</u>	<u>\$ 5</u>	<u>\$ 10</u>

Amortization for the year is \$5,000 (2007 - \$9,000) and is included in administrative expenses on the Statement of Operations.

## 7. PROVISION FOR UNPAID CLAIMS

### Nature of unpaid claims

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimates for the provision for unpaid claims are as follows:

	(thousands of \$)	
	2008	2007
Net unpaid claims, beginning of year	\$ 40,840	\$ 48,447
Change in accounting policy	—	(146)
Payments made during the year relating to:		
Prior year claims	(6,434)	(9,585)
Prior year service agreement claims	(1,383)	(3,215)
Prior year Facility Association claims	(334)	(331)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(5,502)	(2,985)
Prior year estimated service agreement claims	(93)	(1,532)
Prior year estimated unpaid Facility Association claims	(43)	5
Net unpaid for claims of prior years	27,051	30,658
Provision for claims occurring in the current year	13,353	9,926
Provision for Facility Association claims occurring in the current year	306	256
Net unpaid claims, end of year	<u>\$ 40,710</u>	<u>\$ 40,840</u>

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

#### Type of unpaid claims

The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of \$)					
	2008			2007		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	\$ 49,235	\$ 20,495	\$ 28,740	\$ 52,572	\$ 24,146	\$ 28,426
Property	3,880	173	3,707	3,334	702	2,632
Liability	4,118	486	3,632	4,564	869	3,695
Service agreement	3,041	—	3,041	4,518	—	4,518
Facility Association (note 17)	1,590	—	1,590	1,569	—	1,569
Total	<u>\$ 61,864</u>	<u>\$ 21,154</u>	<u>\$ 40,710</u>	<u>\$ 66,557</u>	<u>\$ 25,717</u>	<u>\$ 40,840</u>

### Service agreement

During 1998, the Corporation issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid the Corporation an annual premium under this policy between \$100,000 and \$120,000. At the same time, the Corporation made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of the Corporation, the rental company was required to report to the Corporation quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to the Corporation, nor had it deposited the correct amounts in the trust account. The Corporation has since collected the balance held in the trust account of \$1,235,000.

The Corporation is continuing legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

### Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2008, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is \$1,364,000 (2007 - \$1,245,000).

## 8. SHARE CAPITAL

### Authorized:

Unlimited number of common shares with no par value.

	(thousands of \$)	
	2008	2007
Issued and fully paid:		
10,000 common shares	<u>\$ 1,000</u>	<u>\$ 1,000</u>

## 9. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of \$)	
	2008	2007
General liability and property	\$ 500	\$250
Automobile – liability	500	500
Catastrophe – automobile physical damage	1,000	250
Catastrophe – other	1,000	250

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, and commissions and premium taxes:

	(thousands of \$)	
	2008	2007
Premiums earned	\$ 2,776	\$ 3,201
Claims incurred	1,005	3,197
Commissions and premium taxes	192	155

## 10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of \$)	
	2008	2007
Interest	\$ 2,613	\$ 2,920
Premium financing	837	820
Net realized gain (loss) on sale of investments	497	(92)
Pooled equity fund distributions	423	743
Total investment earnings	<u>\$ 4,370</u>	<u>\$ 4,391</u>

## 11. INCOME TAXES

The Corporation's provision for income taxes is as follows:

	(thousands of \$)	
	2008	2007
Current	\$ 528	\$ –
Future	1,313	1,189
Total income taxes	<u>\$ 1,841</u>	<u>\$ 1,189</u>

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	(thousands of \$)	
	2008	2007
Income before income taxes	<u>\$ 6,523</u>	<u>\$ 8,206</u>
Combined federal and provincial tax rate	33.50%	36.12%
Computed tax expense based on combined rate	\$ 2,185	\$ 2,964
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(382)	-
Changes in enacted tax rates	24	117
Non-deductible expenses for tax purposes	10	11
Other	4	(7)
Valuation allowance	<u>-</u>	<u>(1,896)</u>
Total income tax expense	<u>\$ 1,841</u>	<u>\$ 1,189</u>

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of \$)	
	2008	2007
<b>Future income tax assets</b>		
Provision for unpaid claims	\$ 1,404	\$ 1,092
Other	15	19
Tax loss carryforward	<u>-</u>	<u>1,993</u>
Total future income tax assets	<u>1,419</u>	<u>3,104</u>
<b>Future income tax liabilities</b>		
Investments	435	732
Unpaid claims recoverable from reinsurers	<u>349</u>	<u>424</u>
Total future income tax liabilities	<u>784</u>	<u>1,156</u>
Net future income tax assets	<u>\$ 635</u>	<u>\$ 1,948</u>

The Corporation has non-capital loss carryforwards of approximately \$nil (2007 - \$5,949,000 that expire in 2015).

## 12. FINANCIAL RISK MANAGEMENT

The nature of the Corporation's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio regarding quality and quantity of investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G.

### Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2008 is limited to the carrying value of the financial assets recognized as follows:

	(thousands of \$)	
	2008	2007
Cash and cash equivalents	\$ 1,880	\$ 1,393
Accounts receivable	12,682	12,500
Fixed income investments <sup>1</sup>	64,874	65,217
Unpaid claims recoverable from reinsurers	21,154	25,717

<sup>1</sup> Includes short-term investments and bonds and debentures

Cash and cash equivalents include money market investments of \$1,952,000 less cash on hand, net of outstanding cheques of \$72,000 (2007 - money market investments of \$1,490,000 less cash on hand, net of outstanding cheques of \$97,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of \$)	
	<u>2008</u>	<u>2007</u>
Current	\$ 12,813	\$ 12,684
30-59 days	25	5
60-89 days	3	6
Greater than 90 days	<u>106</u>	<u>202</u>
Subtotal	12,947	12,897
Allowance for doubtful accounts	<u>(265)</u>	<u>(397)</u>
Total	<u>\$ 12,682</u>	<u>\$ 12,500</u>

Provisions for credit losses are maintained in an allowance account and regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	(thousands of \$)	
	<u>2008</u>	<u>2007</u>
Allowance for doubtful accounts, opening balance	\$ 397	\$ 311
Accounts written off	(305)	(147)
Current period provision	<u>173</u>	<u>233</u>
Allowance for doubtful accounts, ending balance	<u>\$ 265</u>	<u>\$ 397</u>

Credit risk within investments is primarily related to short-term investments and bonds and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer. Credit ratings for the bonds and debentures investments are as follows:

	(thousands of \$)			
	<u>2008</u>		<u>2007</u>	
<u>Credit Rating</u>	<u>Fair Value</u>	<u>Makeup of Portfolio</u>	<u>Fair Value</u>	<u>Makeup of Portfolio</u>
AAA	\$ 27,791	46.2%	\$ 34,863	62.0%
AA	14,662	24.4%	12,348	21.9%
A	16,304	27.1%	9,072	16.1%
BBB	<u>1,422</u>	<u>2.3%</u>	<u>-</u>	<u>0.0%</u>
Total	<u>\$ 60,179</u>	<u>100.0%</u>	<u>\$ 56,283</u>	<u>100.0%</u>



Within bonds and debentures investments, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

#### **Market risk**

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

#### **Interest rate risk**

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds and debentures. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by \$1,625,000 at December 31, 2008, representing 2.5% of the \$64,874,000 fair value of fixed income investments.

#### **Foreign exchange**

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. pooled equity fund, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled equity fund. Exposure to both the U.S. equity and non-North American equity markets is limited to a maximum 7% each of the market value of the total investment portfolio. At December 31, 2008, the Corporation's exposure to U.S. equities, through its U.S. equity pooled fund, was 5.0% (2007 - 2.0%) and its exposure to non-North American equities, through its non-North American equity pooled fund was 3.7% (2007 - 2.1%).

At December 31, 2008, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$386,000 decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a \$281,000 decrease/increase in other comprehensive income and accumulated other comprehensive income. As the U.S. pooled equity fund and the non-North American pooled equity fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

### Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets through its investment in pooled equity funds. Pooled equity funds comprise 15.6% (2007 – 10.3%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's investments. As well, no one holding represents more than 10% of the voting shares of any corporation.

The following table indicates the approximate change that would be expected to both other comprehensive income and accumulated other comprehensive income based on changes in the Corporation's benchmark indices at December 31, 2008:

<u>Change in Equity Benchmarks</u>	(Change in thousands of \$)	
	<u>10% increase</u>	<u>10% decrease</u>
S&P/TSX Composite Index	\$ 527	\$ (527)
S&P 500 Index	386	(386)
MSCI EAFE Index	281	(281)

### Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the contractual maturities of the Corporation's financial liabilities at December 31:

	(thousands of \$)					
	2008					
	<u>Carrying amount</u>	<u>0-6 months</u>	<u>7-12 months</u>	<u>1-2 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Accounts payable and accrued liabilities	\$ 2,655	\$ 2,655	\$ -	\$ -	\$ -	\$ -
Amounts due to reinsurers	246	241	5	-	-	-
Provision for unpaid claims	<u>61,864</u>	<u>9,957</u>	<u>7,908</u>	<u>12,077</u>	<u>19,012</u>	<u>12,910</u>
	<u>\$ 64,765</u>	<u>\$ 12,853</u>	<u>\$ 7,913</u>	<u>\$ 12,077</u>	<u>\$ 19,012</u>	<u>\$ 12,910</u>

(thousands of \$)						
2007						
Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years	
Accounts payable and accrued liabilities	\$ 3,294	\$ 3,294	\$ -	\$ -	\$ -	\$ -
Amounts due to reinsurers	328	247	81	-	-	-
Provision for unpaid claims	<u>66,557</u>	<u>10,713</u>	<u>8,508</u>	<u>12,993</u>	<u>20,454</u>	<u>13,889</u>
	<u>\$ 70,179</u>	<u>\$ 14,254</u>	<u>\$ 8,589</u>	<u>\$ 12,993</u>	<u>\$ 20,454</u>	<u>\$ 13,889</u>

### 13. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of contributed surplus from its parent, SGI CANADA Insurance Services Ltd. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a regulated insurer, and as such, is subject to rate regulation related to its automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150%. The Corporation has established an objective to maintain its MCT at a level based upon the Canadian insurance industry. For 2008 that target was an MCT level of 316% (2007 - 307%). At December 31, 2008, the Corporation's MCT was 433% (2007 - 419%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

#### 14. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of \$)	
	2008	2007
Accounts receivable	\$ (182)	\$ 2,568
Deferred policy acquisition costs	(30)	(171)
Reinsurers' share of unearned premiums	26	(12)
Unpaid claims recoverable from reinsurers	4,563	(1,173)
Accounts payable and accrued liabilities	(214)	(3,354)
Amounts due to reinsurers	(82)	(327)
Unearned reinsurance commissions	(13)	14
Unearned premiums	518	378
Provision for unpaid claims	<u>(4,693)</u>	<u>(6,434)</u>
	<u>\$ (107)</u>	<u>\$ (8,511)</u>

#### 15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of \$)	
Category	2008	2007
Accounts receivable	\$ 4	\$ 8
Investments	1,028	988
Investment earnings	51	52

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 9). Administrative expenses incurred by SGI CANADA and charged to the Corporation were \$1,346,000 (2007 – \$1,213,000) and accounts payable are \$88,000 (2007 – \$919,000). Reinsurance ceded to SGI CANADA has reduced premiums earned by \$1,652,000 (2007 – \$2,173,000) and claims incurred by \$69,000 (2007 – \$3,210,000).

Other related party transactions are disclosed separately in the notes to the financial statements.

## 16. FAIR VALUE

The fair value of financial assets and liabilities, other than investments (note 5), provision for unpaid claims and unpaid claims recoverable from reinsurers (note 7 and 9), approximate carrying value due to their immediate or short-term nature.

## 17. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of \$)	
	<u>2008</u>	<u>2007</u>
Gross premiums written	<u>\$ 375</u>	<u>\$ 316</u>
Net premiums earned	<u>\$ 356</u>	<u>\$ 341</u>
Claims incurred	482	388
Commissions	39	25
Premium taxes	11	10
Administrative expenses	<u>99</u>	<u>86</u>
Total claims and expenses	<u>631</u>	<u>509</u>
Underwriting loss	(275)	(168)
Investment earnings	<u>67</u>	<u>89</u>
Net loss	<u>\$ (208)</u>	<u>\$ (79)</u>
Facility Association receivable	\$ 1,556	\$ 1,548
Unearned premiums	190	171
Provision for unpaid claims	1,590	1,569
Facility Association payable	1,520	1,542

## **18. COMMITMENTS AND CONTINGENCIES**

The Corporation has a lease for its office premises expiring December 31, 2013 at an annual rent of \$220,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

## **19. COMPARATIVE FINANCIAL INFORMATION**

For comparative purposes, certain 2007 balances have been reclassified to conform to 2008 financial statement presentation.

